

**HOSPITAL SERVICE DISTRICT NO. 1 OF  
EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

Zachary, Louisiana

Audited Financial Statements

June 30, 2013 and 2012



## Contents

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<b>Independent Auditor's Report</b>	<b>1 - 2</b>
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<b>Basic Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Revenues, Expenses, and Changes in Net Position	4
Consolidated Statements of Cash Flows	5 - 6
Notes to Consolidated Financial Statements	7 - 28

---

<b>Supplemental Information</b>	
Schedule of Board of Commissioners and Salaries	29

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<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	<b>30 - 31</b>
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Current Year Audit Findings and Responses	32
Prior Year Audit Findings	33

## **Independent Auditor's Report**

To the Board of Commissioners  
Hospital Service District No. 1 of  
East Baton Rouge Parish, Louisiana,  
d/b/a Lane Regional Medical Center  
Zachary, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the years ended June 30, 2013 and 2012, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, a component unit of the City-Parish of Baton Rouge, as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

The Hospital has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic consolidated financial statements. Such missing information, although not part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic consolidated financial statements. The Schedule of Board of Commissioners and Salaries is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements.

The Schedule of Board of Commissioners and Salaries is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Board of Commissioners and Salaries is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
October 25, 2013

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Balance Sheets  
June 30, 2013 and 2012**

	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 431,404	\$ 14,338,994
Short-Term Investments	23,840,278	17,036,449
Investments Held by Trustee for Debt Service	262,190	214,009
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of \$8,935,014 in 2013, and \$7,107,667 in 2012	11,085,880	8,638,913
Inventory	1,771,042	583,552
Other Current Assets	1,826,438	2,075,954
<b>Total Current Assets</b>	<b>39,217,232</b>	<b>42,887,871</b>
Capital Assets, Net	48,420,168	48,421,570
Deferred Outflow - Derivative Instrument	332,681	547,590
Other Assets	2,826,547	1,832,273
<b>Total Assets</b>	<b>\$ 90,796,628</b>	<b>\$ 93,689,304</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current Maturities of Long-Term Debt	\$ 855,636	\$ 855,636
Current Maturities of Capital Lease Obligations	-	2,109,825
Accounts Payable	2,416,816	2,676,253
Accrued Salaries and Wages	1,550,379	1,148,307
Accrued Compensated Absences	1,565,526	1,053,386
Accrued Payroll Withholdings	229,395	54,151
Estimated Third-Party Payor Settlements	1,571,785	947,455
Other Current Liabilities	744,401	1,069,519
<b>Total Current Liabilities</b>	<b>8,933,938</b>	<b>9,914,532</b>
Derivative Instrument- Swap	332,681	547,590
Long-Term Debt, Less Current Maturities	11,513,866	12,369,504
Long-Term Capital Lease Obligations, Less Current Maturities	-	2,627,585
<b>Total Liabilities</b>	<b>20,780,485</b>	<b>25,459,211</b>
<b>Net Position</b>		
Invested in Capital Assets, Net of Related Debt	36,050,666	30,459,020
Restricted for Debt Service	262,190	214,009
Unrestricted	33,703,287	37,557,064
<b>Total Net Position</b>	<b>70,016,143</b>	<b>68,230,093</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 90,796,628</b>	<b>\$ 93,689,304</b>

The accompanying notes are an integral part of these consolidated financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Operating Revenues</b>		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$19,214,957 in 2013, and \$19,713,745 in 2012	\$ 69,514,055	\$ 67,176,978
Other Operating Revenue, Net of Expenses	4,358,897	2,749,124
<b>Total Operating Revenues</b>	<b>73,872,952</b>	<b>69,926,102</b>
<b>Operating Expenses</b>		
Salaries	32,372,759	29,226,410
Medical Supplies	12,335,152	11,791,578
Fringe Benefits	4,970,071	6,531,834
Depreciation and Amortization	5,529,052	5,428,932
Contracted Services	5,473,423	5,211,038
Professional Fees	2,795,980	3,070,070
Repairs and Maintenance	2,491,719	1,983,351
Other	2,307,185	1,893,818
Non-Medical Supplies	1,835,650	1,604,605
Insurance	1,151,433	1,148,562
Utilities	1,139,151	881,433
<b>Total Operating Expenses</b>	<b>72,401,575</b>	<b>68,771,631</b>
<b>Operating Income</b>	<b>1,471,377</b>	<b>1,154,471</b>
<b>Non-Operating Revenue (Expenses)</b>		
Investment Income (Loss)	(118,285)	364,222
Interest Expense	(372,357)	(604,744)
Other Non-Operating Revenue	805,315	600,953
<b>Net Non-Operating Revenue</b>	<b>314,673</b>	<b>360,431</b>
<b>Change in Net Position</b>	<b>1,786,050</b>	<b>1,514,902</b>
<b>Net Position, Beginning of Year</b>	<b>68,230,093</b>	<b>66,885,902</b>
<b>Prior Period Adjustment (Note 14)</b>	<b>-</b>	<b>(170,711)</b>
<b>Adjusted Net Position, Beginning of Year</b>	<b>68,230,093</b>	<b>66,715,191</b>
<b>Net Position, End of Year</b>	<b>\$ 70,016,143</b>	<b>\$ 68,230,093</b>

The accompanying notes are an integral part of these consolidated financial statements.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Receipts from and on Behalf of Patients	\$ 72,050,315	\$ 69,843,198
Payments to Suppliers and Contractors	(36,578,493)	(27,020,720)
Payments to Employees	(31,909,771)	(35,712,663)
<b>Net Cash Provided by Operating Activities</b>	<b>3,562,051</b>	<b>7,109,815</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Other Non-Operating Revenues	654,502	600,953
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal Paid on Capital Leases	(4,737,410)	(2,703,570)
Principal Paid on Long-Term Debt	(855,638)	(2,831,111)
Interest Paid on Long-Term Debt	(372,357)	(604,744)
Proceeds from Long-Term Debt	-	-
Proceeds from Sale of Capital Assets	502,734	-
Purchase of Capital Assets	(5,691,177)	(3,965,555)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(11,153,848)</b>	<b>(10,104,980)</b>
<b>Cash Flows from Investing Activities</b>		
Interest and Dividends on Investments	77,885	364,222
Purchase of Investments	(8,392,545)	(1,096,058)
Proceeds from Sale of Investments	1,344,365	4,010,161
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(6,970,295)</b>	<b>3,278,325</b>
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(13,907,590)</b>	<b>884,113</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>14,338,994</b>	<b>13,454,881</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 431,404</b>	<b>\$ 14,338,994</b>

The accompanying notes are an integral part of these consolidated financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Reconciliation of Operating Income to Net</b>		
<b>Cash Provided by Operating Activities</b>		
Operating Income	\$ 1,471,377	\$ 1,154,471
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	5,529,052	5,428,932
Write-off of Financing Costs at Net	160,762	-
Gain on Disposal of Property and Equipment	(10,687)	-
Provision for Bad Debts	19,214,957	19,713,745
Changes in:		
Patient Accounts Receivable	(21,661,924)	(19,467,543)
Inventory and Other Current Assets	(937,974)	(58,031)
Other Assets	(1,332,742)	(685,348)
Accounts Payable and Other Current Payables	(259,437)	1,307,114
Accrued Expenses and Payroll Withholdings	764,338	45,581
Estimated Third-Party Payor Settlements	624,329	(329,106)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,562,051</b>	<b>\$ 7,109,815</b>

The accompanying notes are an integral part of these consolidated financial statements.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies**

**Nature of Operations**

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), is a governmental entity located in Zachary, Louisiana. It is recognized through Internal Revenue Code as a charitable organization. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (the City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is exempt from Federal and State income taxes.

Lane RMC Service Corporation (the Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-Profit Corporation Law. Although the Corporation is legally separate from the Hospital, the Corporation is reported as if it were a part of the Hospital because of the presence of a shared governing body with the Hospital. In accordance with Government Accounting Standards Board (GASB) Statement No. 14, as amended, the operations of the Corporation, for the years ended June 30, 2013 and 2012, have been included in the Hospital's consolidated financial statements.

The Hospital holds an ownership interest in a joint venture with FASTLane, Inc. FASTLane, Inc. is an after hours walk-in clinic servicing the Zachary area. The facility is 3,500 square feet and features eight exam rooms, on-site x-ray, lab and drug screening services. FASTLane is staffed by licensed physicians. As of June 30, 2013 and 2012, the Hospital owned 87% and 78%, respectively, of the joint venture. The Hospital has also guaranteed a bank line of credit of FASTLane with an available principal balance of \$250,000.

**Principles of Consolidation**

The accompanying basic consolidated financial statements include the accounts of entities referred to above. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Financial Reporting Entity**

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Financial Reporting Entity (Continued)**

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying consolidated financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

The significant accounting policies used by the Hospital in preparing and presenting its consolidated financial statements are summarized as follows:

**Basis of Accounting**

The Hospital utilizes the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Pursuant to GASB Statements, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less.

**Investments and Investment Income**

Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of equity, fixed income securities, fixed income funds, and mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Investments Held by Trustees**

The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

**Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

**Inventories**

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

**Prepaid Expenses and Deferred Charges**

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

**Capital Assets**

The Hospital's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest costs allocated to buildings and construction in progress was \$-0-, for the years ended June 30, 2013 and 2012.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

**Compensated Absences**

Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Net Position**

Net position consists of net position invested in capital assets (property and equipment), net of related debt; restricted net position; and unrestricted net position. Net position invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net position are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other assets.

**Operating Revenues and Expenses**

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. See Note 10.

**Charity Care**

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are recorded to gross patient service revenue and written off through contractual allowances. As such, these charges are not reported as net patient service revenue on the consolidated statement of revenues, expenses, and changes in net position. Charity care charges forgone for the years ended June 30, 2013 and 2012 were \$1,102,678 and \$1,930,938, respectively.

**Derivatives and Financial Instruments**

The Hospital uses an interest rate swap basis agreement to manage interest costs and the risk associated with changing interest rates. While the Hospital's primary objective for the use of this instrument is to manage cash flow requirements, the change in fair value of a hedging derivative instrument will be reported in the balance sheet as deferred outflows (accumulated decrease in fair value) in accordance with the GASB No. 53, *Accounting and Financial Reporting of Derivative Instruments*.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Derivatives and Financial Instruments (Continued)**

The fair value of the interest rate basis swap agreement represent the estimated amount the Hospital would pay to terminate this agreement at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the Hospital. See Notes 4 and 5.

**Note 2. Deposits and Investments**

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At June 30, 2013 and 2012, the Hospital had the following deposits and investments, all of which were held in the Hospital's name by a custodial bank or trust that is an agent of the Hospital.

	2013	2012
<b>Cash and Cash Equivalents</b>	<b>\$ 431,404</b>	<b>\$ 14,338,994</b>
<b>Short-Term Investments</b>		
Equity		
Common Stock	9,825,005	-
Equity Funds	597,270	-
Exchange Traded Funds	945,151	-
Fixed Income Securities		
Government	5,910,146	-
Corporate	3,060,991	-
Foreign	250,153	-
Fixed Income Funds		
Bond Funds	250,125	-
Index Funds	1,076,081	-
Mutual Funds	1,925,356	-
Louisiana Hospital Investment Pool	-	17,036,449
<b>Total Short Term Investments</b>	<b>23,840,278</b>	<b>17,036,449</b>
<b>Investments Held by Trustee for Debt Service</b>	<b>262,190</b>	<b>214,009</b>
<b>Total</b>	<b>\$ 24,533,872</b>	<b>\$ 31,589,452</b>

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 2. Deposits and Investments (Continued)**

Louisiana statutes require that all of the Hospital's deposits be protected by insurance or collateral. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

Under Louisiana Revised Statutes 39:2957, 46:1073.1 and 11:263, the Hospital must follow the prudent-man rule to act with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims for investing the Hospital's funds. The Hospital may not invest more than 55% of the total portfolio in equities unless not more than 65% of the total portfolio is invested in equities and at least 10% of the total equity portfolio is invested in one or more index funds which seek to replicate the performance of the chosen index or indices.

Short-term investments consisted of 48% equities, 44% fixed income, and 8% mutual funds at June 30, 2013. Short-term investments consisted of 100% mutual funds at June 30, 2012.

Investments held by trustee for debt service as of June 30, 2013 and 2012, consisted of money market funds.

Credit risk: LHIP is unrated by the credit agencies; however, the underlying U.S. Government agency securities, which comprise the substantial portion of the LHIP's assets, are rated Aaa by Moody's. All other fixed income securities and fixed income funds with ratings are rated between AAA and Baa2 by Moody's. Credit ratings were not available for 5 investments in the investment portfolio.

Concentration of credit risk: The Hospital limits the amount it may invest in any one issuer to no more than 5% of the market value of the investment portfolio with the following exceptions: holdings of direct obligations issued or guaranteed by the United States Government or its agencies. There were no issuers compromising 5% or more of the Hospital's investments at June 30, 2013 or 2012.

Interest rate risk: In accordance with its investment policy, the Hospital manages its exposure to decline in fair values by limiting the weighted average maturity of the fixed income portion of its investment portfolio to within 20% of its stated index's weighted average portfolio. As a means to limit its exposure to decline in fair values arising from rising interest rates, the Hospital's investment policy limits the mutual funds section of its investment portfolio to maturities of less than 397 days.

Interest income and gains and losses were approximately (\$118,000) and \$364,000, for 2013 and 2012 respectively. Fluctuation in investment income is related to recording changes in investment income, related to market valuation as of June 30<sup>th</sup>.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 3. Capital Assets**

Capital asset additions, retirement, and balances for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions	Retirements and Transfers	Balance June 30, 2013
<b>Capital Assets</b>				
Land and Land Improvements	\$ 4,369,295	\$ -	\$ 168,838	\$ 4,538,133
Construction in Progress	549,794	2,995,538	(1,415,697)	2,129,635
Buildings	38,267,404	293,342	581,980	39,142,726
Fixed Equipment	5,916,426	9,425	(100,493)	5,825,358
Movable and Other Equipment	33,140,018	2,392,872	(272,956)	35,259,934
Physicians' Office Building and Equipment	17,008,300	-	-	17,008,300
<b>Total Capital Assets</b>	<b>99,251,237</b>	<b>5,691,177</b>	<b>(1,038,328)</b>	<b>103,904,086</b>
<b>Less: Accumulated Depreciation for:</b>				
Land Improvements	286,358	29,180	-	315,538
Buildings	17,366,116	1,291,308	-	18,657,424
Fixed Equipment	4,677,568	44,679	-	4,722,247
Movable and Other Equipment	25,897,691	3,487,130	(546,281)	28,838,540
Physicians' Office Building and Equipment	2,601,934	348,235	-	2,950,169
<b>Total Accumulated Depreciation</b>	<b>50,829,667</b>	<b>5,200,532</b>	<b>(546,281)</b>	<b>55,483,918</b>
<b>Total Capital Assets, Net</b>	<b>\$ 48,421,570</b>	<b>\$ 490,645</b>	<b>\$ (492,047)</b>	<b>\$ 48,420,168</b>

Capital asset additions, retirement, and balances for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Retirements and Transfers	Balance June 30, 2012
<b>Capital Assets</b>				
Land and Land Improvements	\$ 4,356,604	\$ 12,691	\$ -	\$ 4,369,295
Construction in Progress	671,901	549,794	(671,901)	549,794
Buildings	37,346,119	890,525	30,760	38,267,404
Fixed Equipment	5,620,759	295,667	-	5,916,426
Movable and Other Equipment	32,179,424	1,860,625	(900,031)	33,140,018
Physicians' Office Building and Equipment	16,010,906	356,253	641,141	17,008,300
<b>Total Capital Assets</b>	<b>96,185,713</b>	<b>3,965,555</b>	<b>(900,031)</b>	<b>99,251,237</b>
<b>Less: Accumulated Depreciation for:</b>				
Land Improvements	259,478	26,880	-	286,358
Buildings	16,113,221	1,252,895	-	17,366,116
Fixed Equipment	4,288,599	388,969	-	4,677,568
Movable and Other Equipment	23,519,410	3,278,312	(900,031)	25,897,691
Physicians' Office Building and Equipment	2,242,742	359,191	-	2,601,934
<b>Total Accumulated Depreciation</b>	<b>46,423,450</b>	<b>5,306,247</b>	<b>(900,031)</b>	<b>50,829,667</b>
<b>Total Capital Assets, Net</b>	<b>\$ 49,762,263</b>	<b>\$ (1,340,692)</b>	<b>\$ -</b>	<b>\$ 48,421,570</b>



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 4. Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2013 and 2012, follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amount Due Within One Year
Bonds Payable					
Series 2007	\$ 10,243,057	\$ -	\$ 694,444	\$ 9,548,613	\$ 694,444
Series 2010	2,982,083	-	161,194	2,820,889	161,192
<b>Total Long-Term Debt</b>	<b>\$ 13,225,140</b>	<b>\$ -</b>	<b>\$ 855,638</b>	<b>\$ 12,369,502</b>	<b>\$ 855,636</b>

  

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
Bonds Payable					
Series 2007	\$ 10,937,501	\$ -	\$ 694,444	\$ 10,243,057	\$ 694,444
Series 2010	5,118,750	-	2,136,667	2,982,083	161,192
<b>Total Long-Term Debt</b>	<b>\$ 16,056,251</b>	<b>\$ -</b>	<b>\$ 2,831,111</b>	<b>\$ 13,225,140</b>	<b>\$ 855,636</b>

The terms and due dates of the Hospital's long-term debt at June 30, 2013 and 2012, follows:

- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with the Seventh Supplemental and Amendatory Trust Indenture, Article I, Section 1.2, due in quarterly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2013, the effective rate was 1.46%. See additional information regarding the Hospital's interest rate swap agreement at Note 5.
- Hospital Revenue and Refunding Bonds (Series 2010), variable interest rates on the Bond established weekly in accordance with the Sixth Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, due in quarterly installments through October 1, 2030, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2013, the effective rate was 1.56%.

With the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the years ended June 30, 2013 and 2012.

As more fully described in Note 15, the Hospital refinanced the Series 2007 and Series 2010 bonds.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 4. Long-Term Debt (Continued)**

Without taking into account the effects of refinancing, the scheduled principal and interest repayments on long-term debt are as follows for the year ended June 30, 2013:

	<b>Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>
2014	\$ 855,636	\$ 193,322
2015	855,636	179,628
2016	855,636	165,933
2017	855,636	152,238
2018	855,636	138,544
2019-2023	4,278,180	487,297
2024-2028	3,410,133	152,467
Thereafter	403,009	9,310
<b>Total</b>	<b>\$ 12,369,502</b>	<b>\$ 1,478,739</b>

**Note 5. Derivative Instruments**

On November 25, 2009, the Hospital entered into a seventeen year, \$5,989,584 notional amount basis swap agreement, effective December 1, 2009. The agreement converts the variable interest rate, established weekly in accordance with the Third Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, to a fixed rate of 3.82%.

The Hospital's interest expense included a charge of approximately \$133,802 and \$163,000, for the years ended June 30, 2013 and 2012, respectively, related to the swap agreement. At June 30, 2013 and 2012, this arrangement had a carrying value which approximates its fair value liability of approximately \$333,000 and \$548,000, respectively, which is recorded as derivative instrument-swap on the consolidated balance sheets.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 5. Derivative Instruments (Continued)**

At June 30, 2013 and 2012, the Hospital has the following derivative instruments outstanding:

Type	Objective	Notional Amount June 30, 2013	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	\$ 4,774,306	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	\$ (332,681)
Type	Objective	Notional Amount June 30, 2012	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	\$ 5,121,528	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	\$ (547,590)

As more fully described in Note 15, the Hospital terminated the swap agreement in conjunction with its refinancing of its debt.

*Credit Risk:* The Hospital should enter into interest rate transactions only with counterparties qualified under the Hospital's Interest Rate Derivative Policy. To qualify as a counterparty under the policy, at the time of entry into a transaction, the selected swap providers should be rated at least AA-/Aa3/AA by at least one of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's and Fitch Ratings, respectively) and should have minimum capitalization of \$50 million.

At June 30, 2013, the derivative instrument is held with one counterparty which has a credit rating of A+ as issued by Fitch Ratings, A as issued by Standard & Poor's, and A2 as issued by Moody's Investor Service.

*Basis Risk:* The Hospital is exposed to basis risk on its pay-fixed interest rate swap that are hedging the bonds, as the variable-rate payments received by the Hospital on these derivative instruments are based on a rate other than the interest rate the Hospital pays on the bonds.

*Termination Risk:* The Hospital or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a derivative instrument is in a liability position, the Hospital would be liable to the counterparty for a payment equal to the liability.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 6. Capital Leases**

The Hospital is the lessee of equipment under capital leases expiring in various years through 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2013 and 2012.

During the year ended December 31, 2013, the Hospital terminated its lease agreements and was relieved of its access to those leased assets and the liabilities associated with future payments on those leased assets.

Depreciation on assets under capital leases charged to expense in 2013 and 2012, was \$278,083 and \$2,254,797, respectively.

Following is a summary of property held under capital leases:

	2013	2012
Equipment	\$ -	\$ 9,985,153
Less: Accumulated Depreciation	-	(5,331,430)
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,653,723</b>

A schedule of changes in the Hospital's capital leases for 2013 and 2012, follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amount Due Within One Year
<b>Capital Lease</b>					
Leased Equipment Rider #10	\$ 1,156,736	\$ -	\$ 1,156,736	\$ -	\$ -
Leased Equipment Rider #11	399,217	-	399,217	-	-
Leased Equipment Rider #12	1,097,688	-	1,097,688	-	-
Leased Equipment Rider #13	2,083,769	-	2,083,769	-	-
<b>Total Capital Lease Obligation</b>	<b>\$ 4,737,410</b>	<b>\$ -</b>	<b>\$ 4,737,410</b>	<b>\$ -</b>	<b>\$ -</b>

  

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
<b>Capital Lease</b>					
Leased Equipment Rider #3	\$ 113,159	\$ -	\$ 113,159	\$ -	\$ -
Leased Equipment Rider #9	367,034	-	367,034	-	-
Leased Equipment Rider #10	1,473,069	-	316,333	1,156,736	330,029
Leased Equipment Rider #11	980,550	-	581,333	399,217	399,217
Leased Equipment Rider #12	1,721,789	-	624,101	1,097,688	649,751
Leased Equipment Rider #13	2,785,379	-	701,610	2,083,769	730,828
<b>Total Capital Lease Obligation</b>	<b>\$ 7,440,980</b>	<b>\$ -</b>	<b>\$ 2,703,570</b>	<b>\$ 4,737,410</b>	<b>\$ 2,109,825</b>

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 7. Insurance Programs**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs, including future medical costs. The Fund provides coverage on an occurrence basis for claims over \$100,000, and up to \$500,000. In addition, the Hospital is a participant in the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust). As a participant in the Trust, the Hospital is fully insured against professional liability and general liability claims, with specific loss and aggregate loss limits of \$2,500,000, for professional liability claims and \$4,500,000, for general liability claims, subject to a \$25,000 per claim deductible.

The Hospital participates in the Louisiana Hospital Association Workers' Compensation Inter-local Risk Management Agency. As a participant, the Hospital is insured for workers' compensation claims, subject to a \$50,000 per claim deductible.

The Hospital is also self-insured for medical and dental claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying consolidated financial statements as other current liabilities on the consolidated balance sheets.

The claims liabilities at June 30, 2013 and 2012 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	2013	2012
Claims Liability, Beginning of Year	\$ 989,305	\$ 839,900
Current Year Claims and Changes in Estimates	2,643,353	4,067,894
Current Year Claims Payments	(2,888,258)	(3,918,489)
<b>Total</b>	<b>\$ 744,400</b>	<b>\$ 989,305</b>

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 8. Pension Plan**

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

**Plan Description**

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 with ten years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.5% of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after five years of creditable service, but before attaining retirement age, are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

**Funding Policy**

Participants are required to contribute three percent (3%) of their monthly earnings. Effective January 1, 2013, participants are required to contribute six percent (6%) of their monthly earnings. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 8. Pension Plan (Continued)**

**Funding Status**

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in December 2012, for the Plan year ending June 30, 2013, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2013, 2012 and 2011, were as follows:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Discount Rates	<b>7.00%</b>	7.00%	7.00%
Rates of Increase in Compensation Levels	<b>4.00%</b>	4.00%	4.00%
Expected Long-Term Rate of Return on Assets	<b>7.00%</b>	7.00%	7.00%

Based on the latest actuarial valuation in December 2012, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2013, 2012 and 2011:

	<b>July 1, 2013</b>	<b>July 1, 2012</b>	<b>July 1, 2011</b>
Actuarial Value of Plan Assets	\$ 21,191,704	\$ 20,034,917	\$ 18,574,005
Actuarial Accrued Liability	\$ 23,597,353	\$ 23,169,251	\$ 21,547,438
Unfunded Liability	\$ (2,405,649)	\$ (3,134,334)	\$ (2,973,433)
Funded Ratio	89.8%	86.5%	86.2%
Annual Covered Payroll	\$ 6,128,511	\$ 6,969,894	\$ 6,980,338
Unfunded Deficiencies as a			
Percentage of Annual Covered Payroll	(39.3%)	(45.0%)	(42.6%)

The Hospital had an annual required contribution of \$438,056, \$761,808, and \$750,841, for the years ended June 30, 2013, 2012, and 2011, respectively.

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 8. Pension Plan (Continued)**

**Annual Pension Cost and Net Pension Obligation**

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual Required Contribution	\$ 438,056
Interest on Net Pension Obligation	(8,528)
Adjustment to Annual Required Contribution	17,358
Annual Pension Cost	446,886
Contributions Made	438,056
Increase in Net Pension Obligation	8,830
Net Pension (Overpayment) Obligation, Beginning of Year	(121,834)
Net Pension (Overpayment) Obligation, End of Year	\$ (113,004)

**Note 9. Business and Credit Concentrations**

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2013 and 2012, is as follows:

	2013	2012
Medicare	26%	32%
Medicare Risk	11%	9%
Medicaid	6%	8%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	42%	42%
Self-Pay Patients	15%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 10. Net Patient Service Revenue and Accounts Receivable**

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

**Medicare**

The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor limited the potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof, by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2008.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof, by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through June 30, 2007.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)**

**Medicaid (Continued)**

Revenue from the Medicare and Medicaid programs accounted for approximately 27% and 2%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2013, and 35% and 6%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2012. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient revenue (decreased)/increased by approximately (\$137,272) and \$919,640, for the years ended June 30, 2013 and 2012, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

**Other**

The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined daily rates.

The mix of revenues by significant payor category (based on gross charges) is as follows:

	<b>2013</b>	<b>2012</b>
Medicare	<b>31%</b>	34%
Medicare Risk	<b>18%</b>	16%
Medicaid	<b>3%</b>	11%
Medicaid Risk	<b>11%</b>	3%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	<b>30%</b>	30%
Self-Pay Patients	<b>7%</b>	6%
<b>Total</b>	<b>100%</b>	100%

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 11. Other Operating Revenue**

Other operating revenue recognized during the years ended June 30, 2013 and 2012, consists of the following:

	2013	2012
Upper Payment Limit Distributions	\$ 1,740,539	\$ 2,206,041
Pharmacy 340B Program Revenues	5,023,977	398,898
Cafeteria Revenues	394,054	360,839
Other	359,150	249,485
<b>Total Other Operating Revenues</b>	<b>7,517,720</b>	<b>3,215,263</b>
<b>Less: Related Expenses</b>	<b>(3,158,823)</b>	<b>(466,139)</b>
<b>Other Operating Revenue, Net</b>	<b>\$ 4,358,897</b>	<b>\$ 2,749,124</b>

**Note 12. Commitments and Contingencies**

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

**Recovery Audit Contractors**

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010.

The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Management's experience had determined that RAC and MIC assessments have been insignificant to date.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 12. Commitments and Contingencies (Continued)**

**Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified health records technology (EHR). Payments under both programs are contingent upon a hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final payment for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program. The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. No EHR amounts are recognized for the years ending June 30, 2013 and 2012.

**Derivative Instruments**

The Hospital's derivative instrument includes provisions that the Hospital will post collateral to the counterparty in the event the Hospital does not maintain a minimum Debt Service Coverage Ratio of 1.35 or Days Cash on Hand falls below one hundred-ten days. As of June 30, 2013, the Hospital has achieved the aforementioned requirements.

**Cooperative Endeavor and Service Agreements**

The Hospital entered into a one year agreement with PHC-Louisiana, Inc. (PHC) effective April 1, 2011. The agreement states that certain physician and nurse anesthetist services will be funded by PHC in exchange for the matching of funds provided by the Hospital to the Department of Health and Hospitals (DHH). This agreement was renewed for one year effective April 1, 2012. This agreement terminated on March 31, 2013.

The Hospital also entered into a one year agreement with Life Point effective July 1, 2011. The agreement states that certain psychiatrist and physician services will be funded by PHC in exchange for the matching of funds provided by the Hospital to DHH. This agreement was renewed for one year effective July 1, 2012. This agreement terminated on June 30, 2013.

The Hospital also entered into a six month agreement with PHC effective October 1, 2011. The agreement states that certain cardiology services will be funded by Life Point in exchange for the matching of funds provided by the Hospital to DHH. This agreement was renewed for six months effective April 1, 2012. This agreement terminated on March 31, 2013.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 12. Commitments and Contingencies (Continued)**

**Cooperative Endeavor and Service Agreements (Continued)**

The Hospital also entered into an agreement with Cypress Audit (Cypress) effective May 21, 2012. The agreement states that the Hospital will fund certain physician, physician assistants, and nurse anesthetist services to support the roles they perform in the delivery of healthcare in the Medicare populations in exchange for the matching of funds provided to DHH. As of June 30, 2013, the net effect of intergovernmental transfer and the supplemental Upper Payment Limit (UPL) payment due to the Hospital was \$-0-, which is recognized as other operating revenues on the consolidated statements of revenues, expenses and changes of net position.

The Hospital also entered into a one year agreement, effective December 7, 2011, with other health care providers, to establish a grant program through the contribution of a portion of UPL payment(s) that result from Medicaid State Plan Amendments, which provides for reimbursements to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits, to the hospital service districts for the purpose of ensuring adequate healthcare services are available for underserved non-rural populations. This agreement will be automatically renewed for successive one year terms unless terminated. As of June 30, 2013 and 2012, the Hospital has received UPL payments under this contract of approximately \$1,179,000 and \$2,013,000, respectively, which are recognized in other operating revenues on the consolidated statements of revenues, expenses and changes in net position.

The Hospital also entered into an agreement, effective April 1, 2012, with the Louisiana Women's Healthcare Associates, L.L.C. (the Contractor). The Hospital is engaged in the delivery of physician services through the use of its facilities, personnel and medical staff; and in support of the Hospital's mission, the Hospital owns, operates, and manages certain medical practices located in Zachary, Louisiana. Under the agreement, the Contractor shall be responsible for providing physicians to perform professional medical services normally provided by physicians in the specialty. The Contractor may also provide professional services through such Allied Health Professionals (AHP), such as physician assistant or advanced registered nurse. In addition, the Contractor may provide administrative effort necessary to operate the clinic. As compensation for the services provided by the Contractor under the agreement, the Contractor shall receive 100% after allocation of clinical expenses, of the collections attributable to services performed by any physician or by any AHP for whom the Contractor is entitled to bill, as well as 60% of the collections attributable to supplemental UPL payments from Medicaid. As of June 30 2013, other operating revenues recognized under this agreement on the consolidated statements of revenues, expenses and changes in net position were \$561,188.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 13. Reclassifications**

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. The reclassifications have no effect on previously reported net income.

**Note 14. New GASB Statements and Prior Period Adjustment**

During the year ended June 30, 2013, the Hospital adopted GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB 20 for business type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities that so elected can continue to apply, as other accounting literature, post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB Statement 62 has been applied retrospectively and has had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

For the year ended June 30, 2013, the Hospital adopted GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The adoption of this Statement had an effect on the titles within the financial statements and on the notes to the financial statements.

For the year ended June 30, 2013, the Hospital adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. With this adoption, the Hospital recognized an outflow of resources.

The financial statements reflect this adoption through the use of a prior period adjustment. As such, net position as of July 1, 2012 was decreased by \$170,711 which represents the net book value of capitalized financing costs at June 30, 2011. Depreciation and Amortization was reduced by \$9,948 for the year ended June 30, 2012 and Other Assets were reduced by \$160,763.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 15. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 25, 2013, and determined that the following events occurred that require disclosure:

On July 26, 2013, the Hospital refinanced the Series 2007 and Series 2010 bonds, issuing Hospital Revenue and Refunding Bonds (Series 2013A), at a fixed rate of 3.2%, due in quarterly installments commencing October 1, 2013 through July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture, and Hospital Revenue Bonds (Series 2013B), at a fixed rate of 3.2%, due in quarterly installments commencing October 1, 2015 through July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture. This refinance is expected to change current maturities of long-term debt at June 30, 2013 to \$648,909, from \$855,638 that is disclosed in Note 4.

In conjunction with the refinance, the Hospital, on July 19, 2013, terminated the swap agreement more fully described in Note 5 through a settlement payment of \$320,000.

No subsequent events occurring after the date above have been evaluated for inclusion in these financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Schedule of Board of Commissioners and Salaries  
For the Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
Dell Guerra	\$ 250	\$ 250
Frank Ragsdale	250	250
Mark Thompson	250	225
Jimmy Jackson	225	250
Joan Lansing	225	225
Gaynell Young	225	200
Harold Rideau	200	250
Patricia D. Gauthier	200	225
Keith Elbourne, M.D.	175	250
Judy Myles	-	25
<b>Total</b>	<b>\$ 2,000</b>	<b>\$ 2,150</b>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

To the Board of Commissioners  
Hospital Service District No. 1 of  
East Baton Rouge Parish, Louisiana  
d/b/a Lane Regional Medical Center  
Zachary, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic consolidated financial statements, and have issued our report thereon dated October 25, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA  
October 25, 2013

**HOSPITAL SERVICE DISTRICT NO.1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Current Year Audit Findings and Responses  
For the Year Ended June 30, 2013**

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**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings noted.

**HOSPITAL SERVICE DISTRICT NO.1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Prior Year Audit Findings  
For the Year Ended June 30, 2013**

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**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings noted.